

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Gladstone	County Delta
Audit Date 3/31/05	Opinion Date 8/15/05	Date Accountant Report Submitted to State: 9/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 901 Ludington St	City Escanaba	State MI	ZIP 49829
Accountant Signature <i>Anderson, Tackman & Company P.C.</i>		Date 9/27/05	

CITY OF GLADSTONE, MICHIGAN

BASIC FINANCIAL STATEMENTS

MARCH 31, 2005

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Commission
City of Gladstone
Gladstone, Michigan 49837

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gladstone, Michigan, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gladstone, Michigan as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005, on our consideration of the City of Gladstone, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 14 and 71 through 74, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone, Michigan's basic financial statements. The combining nonmajor fund financial statements and the statistical table are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical table has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 15, 2005

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Gladstone's financial performance provides an overview of the City's financial activities for the fiscal year ending March 31, 2005. Please read it in conjunction with the City's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- The City's net assets were reported at \$14,893,089. This is a decrease of \$616,163 from March 31, 2004. This resulted from a decrease in total assets of \$947,970 (or 4.98%) and a decrease in liabilities of \$331,807 (9.44%). The decline in net assets resulted primarily from a decrease in notes receivable of \$229,252. Net assets for our business-type activities were \$9,646,959, a decrease of \$41,085 from 2004, while net assets in our governmental activities were \$5,246,130, a decrease of \$575,078.
- The City's expenses for the year totaled \$7,882,064 an increase of \$535,395 (7.29%) over 2004. Revenues from all sources were \$7,265,901, an increase of \$127,296 (1.78%) from 2004.
- In the City's business type activities, total revenues were \$3,721,220 an increase of 2.4% over the previous year. Business-type activity revenues increased slightly as a percentage of total revenues to 51% from 50% the previous year.
- The wireless broadband service has been fully deployed in Gladstone and some outlying areas. Most City departments are now connected to high-speed Internet services. Many reports and forms are now transmitted through the Internet. In 2005, the fund had a \$40,013 operating loss, however, as the customer base continues to increase the fund should cash flow in the near future.
- The General Fund finished the year with an increase, and ending fund balance of \$11,879. This was after revenues of \$2,583,438 compared to \$2,578,898 in 2004, and expenditures of \$2,850,958 compared to expenditures of \$2,699,114 in 2004.

USING THIS REPORT

This annual report consist of financial statements. The Statement of Net Assets and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statement start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

Reporting the City as a whole

Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about a city's finances in "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current years revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets- the difference between assets and liabilities- as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, state shared revenues and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Electrical Departments, Land Development Fund, Gladstone Wireless Broadband and Economic Development Corporation are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's Major Funds begins on page 10. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that the Commission is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that

can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.

- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other City programs and activities – such as the Equipment Fund.

The City as a Trustee

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 29. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The City as a Whole

The City's combined net assets declined by \$616,163.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities	
	2004	2005	2004	2005
Current and other assets	\$ 1,006,110	\$ 752,033	\$ 2,955,765	\$ 2,792,721
Capital assets (net)	7,146,730	6,661,377	7,914,903	7,869,407
Total Assets	<u>8,152,840</u>	<u>7,413,410</u>	<u>10,870,668</u>	<u>10,662,128</u>
Long-term debt outstanding	1,945,125	1,755,526	790,772	656,234
Other liabilities	386,507	411,754	391,852	358,935
Total Liabilities	<u>2,331,632</u>	<u>2,167,280</u>	<u>1,182,624</u>	<u>1,015,169</u>
Net Assets:				
Invested in capital assets, net of related debt	5,297,015	4,905,851	6,763,403	6,852,445
Restricted assets:				
Expendable	-	-	17,543	2,658
Nonexpendable	219,188	224,048	-	-
Unrestricted	305,005	116,231	2,907,098	2,791,856
Total net assets	<u>\$ 5,821,208</u>	<u>\$ 5,246,130</u>	<u>\$ 9,688,044</u>	<u>\$ 9,646,959</u>

Net assets of the City's governmental activities stood at \$5,246,130, down from \$5,821,208 in 2004 (-9.88%). Total of the governmental activities assets declined by just over 9%, but total liabilities declined by nearly 7%. The ratio of assets to liabilities fell from 3.50 in 2004 to 3.42 in 2005. This was the result of a decline in long term debt of over \$189,599 and an increase of over \$25,000 in other liabilities.

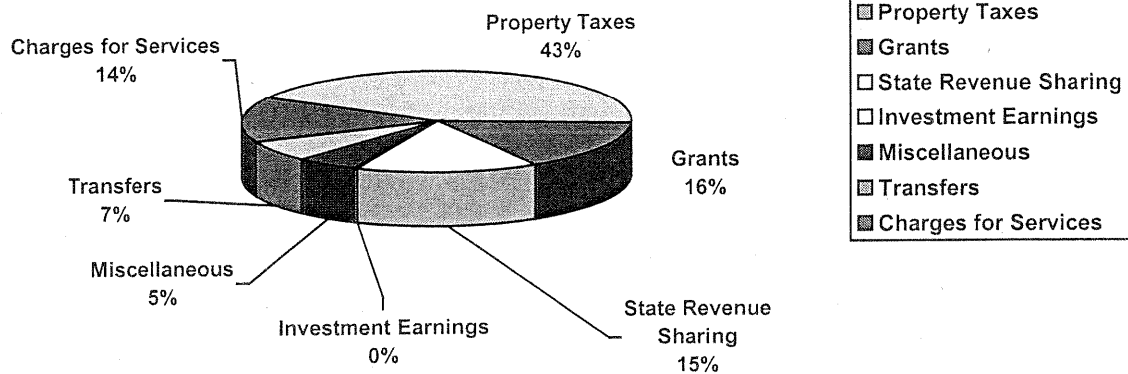
Net assets in our business type activities stood at \$9,646,959, up from \$9,623,330 in 2004. Total assets declined to 10,662,128 from \$10,870,668 in 2004, while liabilities declined from \$1,182,624 in 2004 to \$1,015,169 in 2005 (-14.16%). Unrestricted net assets declined from \$ 2,842,384 to \$ 2,791,856, while the amount invested in capital assets (net of related debt) rose from \$6,763,403 in 2004 to \$ 6,852,445 in 2005. In summary, the net assets of the business lines became a little less liquid, but investments in infrastructure will pay dividends in the future.

Table 2
Changes in Net Assets

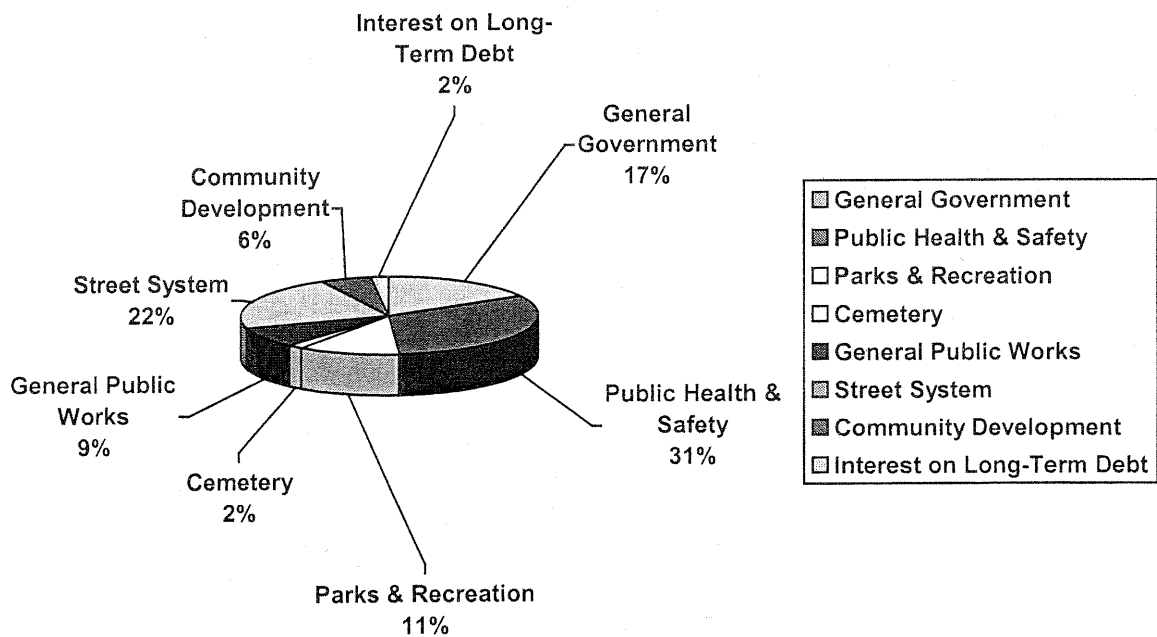
	Governmental Activities		Business-Type Activities	
	2004	2005	2004	2005
Revenues:				
Program Revenues:				
Charges for services	\$ 482,759	\$ 549,013	\$ 3,527,687	\$ 3,413,388
Operating grants	533,971	475,563	-	-
Capital grants	262,401	124,878	63,648	237,268
General Revenues:				
Property taxes	1,591,682	1,609,639	-	-
State revenue sharing	584,227	568,059	-	-
Unrestricted grants	5,148	6,041	-	-
Unrestricted investment earnings	7,361	6,687	42,236	70,564
Miscellaneous	36,108	199,681	-	-
Total Revenues	<u>3,503,657</u>	<u>3,539,561</u>	<u>3,633,571</u>	<u>3,721,220</u>
Program Expenses:				
General government	333,253	742,851	-	-
Public health & safety	1,501,009	1,393,912	-	-
Parks & recreation	468,427	481,066	-	-
Cemetery	74,538	75,251	-	-
General public works	368,803	381,726	-	-
Street system	950,520	966,773	-	-
Community development	147,905	243,574	-	-
Interest on long-term debt	88,701	86,767	-	-
Electric	-	-	2,247,968	2,311,421
Wastewater	-	-	575,343	560,637
Water	-	-	525,572	508,670
Land development	-	-	25,034	43,636
Gladstone wireless	-	-	-	58,086
Economic development	-	-	39,596	27,694
Total Expenses	<u>3,933,156</u>	<u>4,371,920</u>	<u>3,413,513</u>	<u>3,510,144</u>
Excess (deficiency) before transfers and contributions	(429,499)	(832,359)	220,058	211,076
Transfers	\$ 239,258	\$ 252,161	\$ (239,258)	\$ (252,161)
Contributions to permanent fund	<u>1,377</u>	<u>5,120</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(188,864)	(575,078)	(19,200)	(41,085)
Net assets - beginning	<u>6,010,072</u>	<u>5,821,208</u>	<u>9,707,244</u>	<u>9,688,044</u>
Net assets - ending	<u>\$ 5,821,208</u>	<u>\$ 5,246,130</u>	<u>\$ 9,688,044</u>	<u>\$ 9,646,959</u>

Governmental Activities

2005 Governmental Activities Revenue



2005 Governmental Program Expenses



The City's total revenues were \$7,265,901, up from \$7,138,605 in 2004 (an increase of 1.78%). The cost of all programs and services was \$7,882,064, up from \$7,346,669 in 2004 (an increase of 7.29%). For 2005, there was an excess of expenses over revenues of \$616,163, versus an excess of expenses over revenues of \$208,064 in 2004. The 7.29% increase in expenses is due to a number of factors. One of which is the cashing in of the Met Life stock in the amount of \$225,340, which in turn was sent to MERS to offset our unfunded pension liability. Another would be the wages, health insurance and retirement of staff. Also, the DDA dipped into their fund balance this year in the amount of \$78,000, due to the aggressive Façade program they offer.

Governmental Activities

Revenues for the City's governmental activities totaled \$3,544,631, up 1.13% from \$3,505,034 in 2004. Expenses increased by 11.16% (\$438,764) with the largest percentage increase (122.9%) in general government. The 11.16% increase in expense is due to the cashing in of the Met Life Stock, wages, health insurance and retirement of staff.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Government Activities

	Total Cost of Services		Net Cost of Services	
	2004	2005	2004	2005
Public health & safety	\$ 1,501,009	\$ 1,393,912	\$ 1,091,610	\$ 1,192,945
Street systems	950,520	966,773	466,009	483,837
Parks & recreation	468,427	481,066	235,457	190,929
General public works	368,803	381,726	248,925	256,093
General government	333,253	742,851	333,253	742,851
Totals	<u>\$ 3,622,012</u>	<u>\$ 3,966,328</u>	<u>\$ 2,375,254</u>	<u>\$ 2,866,655</u>

Most of the governmental activity increases are due to rate of inflation. In Public Health & Safety the difference is the timing of MSHDA grant money. MSHDA grant's cover two fiscal years and is now accounted for in a dedicated fund. The main increase in general government in the Met Life stock issue.

Business-Type Activities

Revenues for the City's business-type activities totaled \$3,721,220, up from \$3,633,571 in 2004 (+2.4%).

THE CITY'S FUNDS

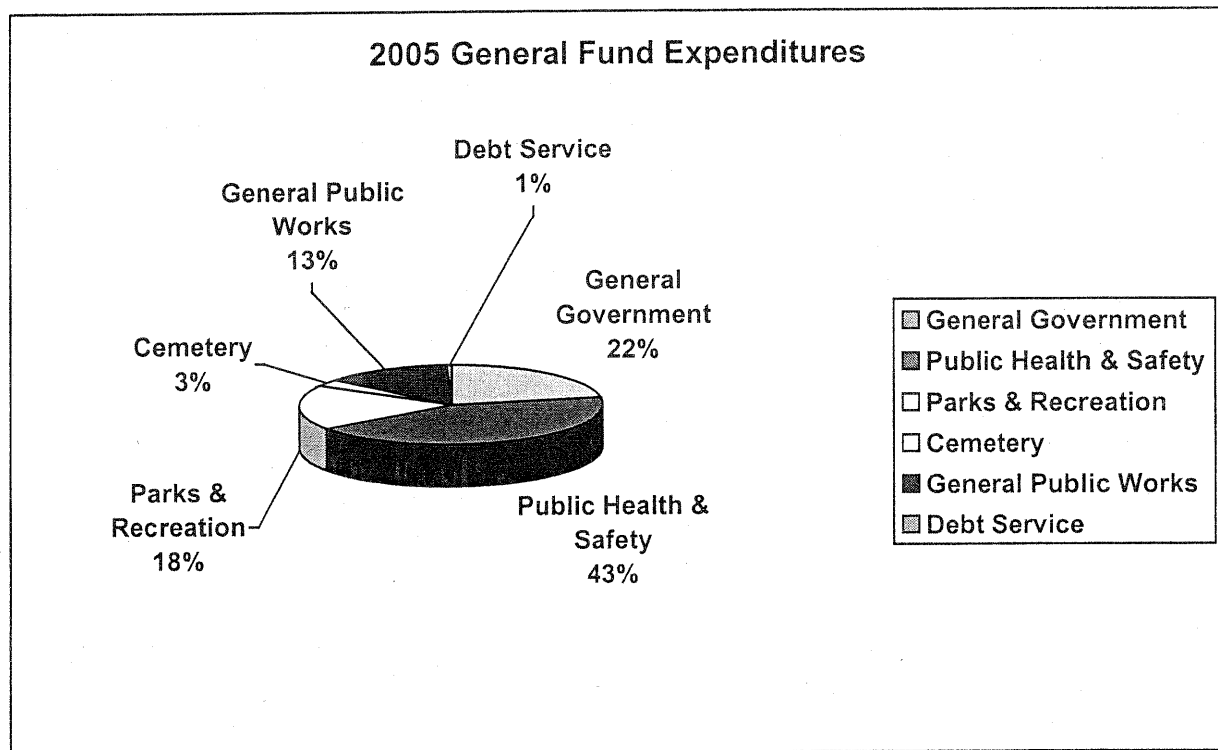
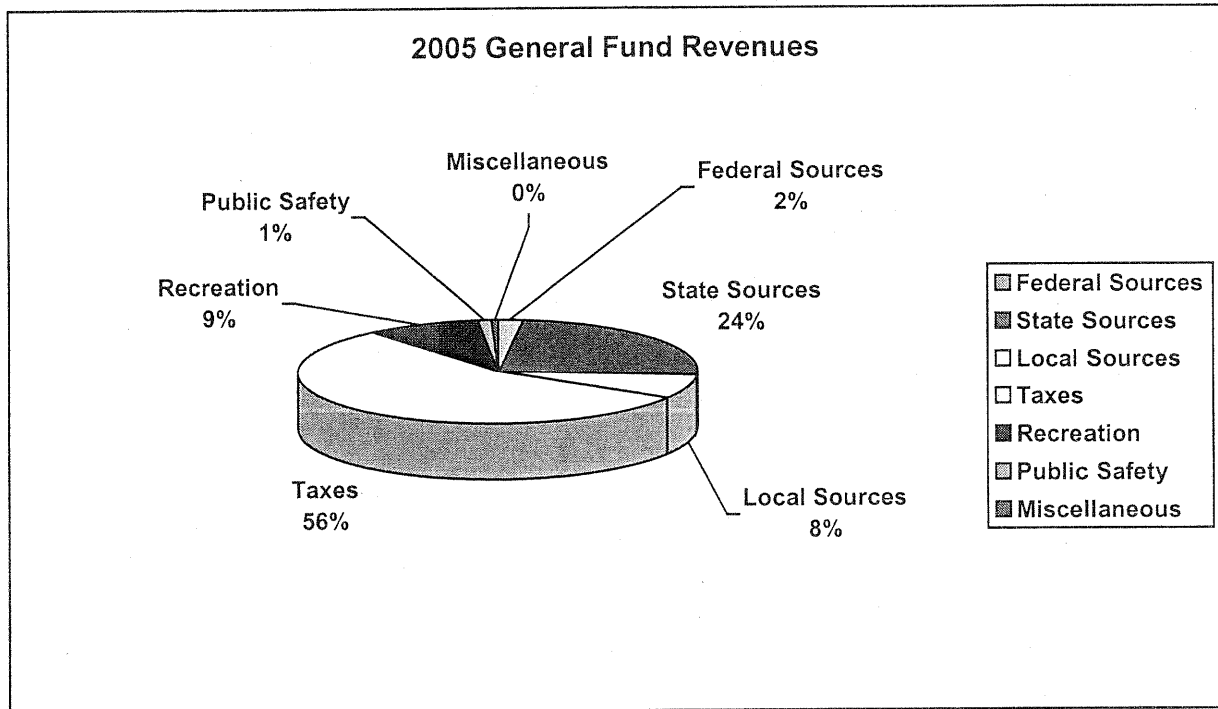
As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$652,969, an increase of \$61,628 from 2004. This was due primarily to a decrease in assets of \$197,984, offset by a decrease in liabilities of \$259,612.

General Fund Budgetary Highlights

Over the course of the year, the budget was amended to recognize known changes to revenue or expenses. As usual, revenue figures were easiest to project, with the final revenue number of \$2,358,097 just 1.45% under the amended budget. Expenditures were a little harder to predict, given variables such as winter weather, volume of trash to be landfilled, and costs for health insurance. The final expenditure number of \$2,850,958, was under the revised expenditure estimate of \$2,873,966, but slightly higher than the original expense number of \$2,589,481.

The final revenue number was \$22,801 less than 2004 and expenditures were \$151,844 higher than 2004. On the revenue side, the General Fund decrease is due to the loss of a FEMA grant and the timing of the MSHDA grant. Also, State Shared revenue continues to decrease. On the expense side, the increase is due to the cashing in of the Met Life stock. If we take out the Met Life stock, expenses actually fell by roughly \$75,000.

General Fund



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005, the City had \$14,530,784, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was down from \$15,061,633 in 2004. (See table 4 below)

Table 4
Capital Assets at Year-End
(net of accumulated depreciation)

	Governmental Activities		Business-Type Activities	
	2004	2005	2004	2005
Land	\$ 1,601,627	\$ 1,601,627	\$ 411,336	\$ 350,821
Land Improvements	95,680	84,059	-	-
Buildings	1,612,274	1,575,030	172,386	166,217
Machinery & Equipment	1,025,630	940,260	333,298	230,242
Infrastructure - Road System	2,710,648	2,275,262	-	-
Infrastructure - Other	100,871	185,139	-	-
Distribution/Collection System	-	-	6,997,883	7,122,127
Total	<u>\$ 7,146,730</u>	<u>\$ 6,661,377</u>	<u>\$ 7,914,903</u>	<u>\$ 7,869,407</u>

DEBT

At year-end the City had \$2,411,760 in bonds and notes outstanding. This is a decrease of \$324,137 (11.85%) in total long-term debt. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt of \$406,760 is well below the 10% limit of \$7,967,910.

Table 5
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2004	2005	2004	2005	2004	2005
General obligation bonds/ notes(backed by the City)	440,125	380,526	30,772	26,234	\$ 470,897	\$ 406,760
Revenue bonds and notes (backed by specific tax and fee revenues)	1,505,000	1,375,000	760,000	630,000	2,265,000	2,005,000
Totals	<u>\$ 1,945,125</u>	<u>\$ 1,755,526</u>	<u>\$ 790,772</u>	<u>\$ 656,234</u>	<u>\$ 2,735,897</u>	<u>\$ 2,411,760</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for business type activities. One of those factors is the economy. While it seems apparent that Gladstone is still trying to recover from the recent recession, the cost of doing business is still increasing sometimes beyond our control. Gladstone is the "year round playground" and we will try to maintain all of the services we currently offer well into the future.

The cost of living in Gladstone is below the national and State average, but real estate values continue to climb. The growth of other costs continues to rise at the national inflation rate or higher. These factors were taken into account when adopting the 2005 budget. Amounts available for appropriation were \$2.358 million, down from \$2.58 million in 2004.

For our business type activities, continued slow growth is forecast in water and wastewater and electric. Average growth in energy sales had averaged more than 5% per year. The increases in utility rates is due mainly to the increase in the cost of doing business.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Gladstone City Hall, 1100 Delta Ave, P.O. Box 32, Gladstone, Michigan, 49837.

CITY OF GLADSTONE, MICHIGAN

STATEMENT OF NET ASSETS

March 31, 2005

ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 128,593	\$ 1,059,254	\$ 1,187,847
Receivables:			
Accounts	3,310	-	3,310
Utilities	19,147	573,001	592,148
Delinquent special assessments	20,342	-	20,342
Notes	55,529	12,863	68,392
Interest	2,505	5,965	8,470
Miscellaneous	30,342	88,469	118,811
Due from other governmental units	320,481	-	320,481
Inventory	18,435	360,401	378,836
Total current assets	<u>598,684</u>	<u>2,099,953</u>	<u>2,698,637</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	223,066	64,000	287,066
Investments	-	182,182	182,182
Notes receivable	123,797	217,022	340,819
Internal balances	(193,514)	193,514	-
Bond issuance costs	-	36,050	36,050
Capital assets	16,905,644	15,528,858	32,434,502
Accumulated depreciation	(10,244,267)	(7,659,451)	(17,903,718)
Total noncurrent assets	<u>6,814,726</u>	<u>8,562,175</u>	<u>15,376,901</u>
Total assets	<u>\$ 7,413,410</u>	<u>\$ 10,662,128</u>	<u>\$ 18,075,538</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 49,263	\$ 216,647	\$ 265,910
Accrued interest	34,401	3,021	37,422
Customer deposits	-	60,335	60,335
Deferred revenue	58,914	-	58,914
Other liabilities	2,060	-	2,060
Compensated absences	32,307	19,732	52,039
Bonds payable	145,000	120,000	265,000
Notes payable	94,759	4,786	99,545
Total current liabilities	<u>416,704</u>	<u>424,521</u>	<u>841,225</u>
Noncurrent liabilities:			
Compensated absences	129,229	59,200	188,429
Due to other governmental units	105,580	-	105,580
Bonds payable	1,230,000	510,000	1,740,000
Notes payable	285,767	21,448	307,215
Total noncurrent liabilities	<u>1,750,576</u>	<u>590,648</u>	<u>2,341,224</u>
Total liabilities	<u>\$ 2,167,280</u>	<u>\$ 1,015,169</u>	<u>\$ 3,182,449</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 4,905,851	\$ 6,852,445	\$ 11,758,296
Restricted for:			
Expendable:			
Debt covenants	-	2,658	2,658
Nonexpendable:			
Cemetery perpetual care	224,048	-	224,048
Unrestricted	<u>116,231</u>	<u>2,791,856</u>	<u>2,908,087</u>
Total net assets	<u>\$ 5,246,130</u>	<u>\$ 9,646,959</u>	<u>\$ 14,893,089</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2005

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 742,851	\$ -	\$ -	\$ -	\$ (742,851)	\$ -	\$ (742,851)
Public health and safety	1,393,912	110,369	11,523	79,075	(1,192,945)	-	(1,192,945)
Parks and recreation	481,066	244,334	-	45,803	(190,929)	-	(190,929)
Cemetery	75,251	36,713	4,039	-	(34,499)	-	(34,499)
General public works	381,726	125,633	-	-	(256,093)	-	(256,093)
Street system	966,773	22,935	460,001	-	(483,837)	-	(483,837)
Community development	243,574	9,029	-	-	(234,545)	-	(234,545)
Interest on long-term debt	86,767	-	-	-	(86,767)	-	(86,767)
Total governmental activities	4,371,920	549,013	475,563	124,878	(3,222,466)	-	(3,222,466)
Business-type activities:							
Electric utility	2,311,421	2,390,666	-	33,552	-	112,797	112,797
Waste water utility	560,637	503,297	-	430	-	(56,910)	(56,910)
Water utility	508,670	494,403	-	50,522	-	36,255	36,255
Land development	43,636	6,885	-	-	-	(36,751)	(36,751)
Economic development	27,694	64	-	-	-	(27,630)	(27,630)
Wireless broadband	58,086	18,073	-	152,764	-	112,751	112,751
Total business-type activities	3,510,144	3,413,388	-	237,268	-	140,512	168,142
Total primary government	\$ 7,882,064	\$ 3,962,401	\$ 475,563	\$ 362,146	(3,222,466)	140,512	(3,054,324)
General revenues:							
Property taxes					1,609,639	-	1,609,639
State revenue sharing					568,059	-	568,059
Grants and contributions not restricted to specific programs					6,041	-	6,041
Contributions to permanent fund					5,120	-	5,120
Unrestricted investment earnings					6,687	70,564	77,251
Miscellaneous					199,681	-	199,681
Transfers					252,161	(252,161)	-
Total general revenues and transfers					2,647,388	(181,597)	2,465,791
Changes in net assets					(575,078)	(41,085)	(616,163)
Net assets - beginning					5,821,208	9,688,044	15,509,252
Net assets - ending					\$ 5,246,130	\$ 9,646,959	\$ 14,893,089

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
ASSETS			
Cash and equivalents:			
Restricted	\$ -	\$ -	\$ -
Unrestricted	91,179	6,461	(1,762)
Receivables:			
Accounts	-	3,310	-
Utilities	19,147	-	-
Delinquent special assessments	20,342	-	-
Notes	-	-	-
Interest	145	97	-
Miscellaneous	28,948	-	668
Due from other funds	44,213	869	621
Due from other governmental units	73,523	56,161	22,819
Inventory	3,689	14,746	-
	<u>281,186</u>	<u>81,644</u>	<u>22,346</u>
Total assets	<u>\$ 281,186</u>	<u>\$ 81,644</u>	<u>\$ 22,346</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 34,521	\$ 412	\$ 94
Due to other funds	173,812	46,013	19,889
Deferred revenue	58,914	-	-
Other liabilities	2,060	-	-
	<u>269,307</u>	<u>46,425</u>	<u>19,983</u>
Total liabilities	<u>269,307</u>	<u>46,425</u>	<u>19,983</u>
Fund balances:			
Reserved for:			
Inventory	3,689	14,746	-
Cemetery perpetual care	-	-	-
Unreserved	8,190	20,473	2,363
Unreserved, reported in non-major:			
Special revenue funds	-	-	-
Debt service funds	-	-	-
	<u>11,879</u>	<u>35,219</u>	<u>2,363</u>
Total fund balances	<u>11,879</u>	<u>35,219</u>	<u>2,363</u>
Total liabilities and fund balances	<u>\$ 281,186</u>	<u>\$ 81,644</u>	<u>\$ 22,346</u>

See accompanying notes to financial statements.

<u>Revolving Loan</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 223,066	\$ 223,066
235,528	(28,558)	302,848
-	-	3,310
-	-	19,147
-	-	20,342
179,326	-	179,326
932	1,331	2,505
-	-	29,616
-	-	45,703
-	167,978	320,481
-	-	18,435
<u>\$ 415,786</u>	<u>\$ 363,817</u>	<u>\$ 1,164,779</u>
\$ 803	\$ 966	\$ 36,796
-	-	239,714
174,326	-	233,240
-	-	2,060
<u>175,129</u>	<u>966</u>	<u>511,810</u>
-	-	18,435
-	224,048	224,048
240,657	-	271,683
-	137,992	137,992
-	811	811
<u>240,657</u>	<u>362,851</u>	<u>652,969</u>
<u>\$ 415,786</u>	<u>\$ 363,817</u>	<u>\$ 1,164,779</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2005

Total fund balances for governmental funds	\$ 652,969
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 1,601,627	
Land improvements	119,600	
Buildings	2,476,717	
Machinery and equipment	958,357	
Infrastructure - road system	9,635,818	
Infrastructure - other	199,558	
Accumulated depreciation	<u>(9,074,397)</u>	
Total capital assets		5,917,280

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

286,903

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (34,401)	
Bonds payable	(1,375,000)	
Notes payable	(108,831)	
Due to other governmental units	(105,580)	
Compensated absences	<u>(161,536)</u>	(1,785,348)

Deferred revenue reported as a liability on the balance sheet of the fund financial statements and have been recognized as revenue in the statement of activities have been removed from the statement of net assets.

174,326

Total net assets of governmental activities	<u><u>\$ 5,246,130</u></u>
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See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2005

	General Fund	Major Street	Local Street
REVENUES:			
Federal sources	\$ 45,000	\$ -	\$ -
State sources	574,129	313,974	127,481
Local sources	176,851	16,338	-
Taxes	1,306,226	-	-
Recreation	217,094	-	-
Public safety	26,667	-	-
Loan repayment	-	-	-
Lease income	-	-	-
Interest income	1,121	218	-
Miscellaneous	11,009	6,208	389
	<u>\$ 2,358,097</u>	<u>\$ 336,738</u>	<u>\$ 127,870</u>
Total revenues			
EXPENDITURES:			
General government	\$ 636,987	\$ -	\$ -
Public health and safety	1,227,544	-	-
Parks and recreation	513,949	-	-
Cemetery	74,656	-	-
General public works	378,139	-	-
Street system	-	304,119	204,907
Community development	-	-	-
Debt service:			
Principal	13,421	-	-
Interest and other charges	6,262	-	-
	<u>2,850,958</u>	<u>304,119</u>	<u>204,907</u>
Total expenditures			
Excess revenues (expenditures)	<u>(492,861)</u>	<u>32,619</u>	<u>(77,037)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	286,399	35,000	79,400
Transfers out	(7,000)	(32,400)	-
Retirement plan proceeds	225,341	-	-
	<u>504,740</u>	<u>2,600</u>	<u>79,400</u>
Total other financing sources (uses)			
Net changes in fund balances	11,879	35,219	2,363
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ 11,879</u>	<u>\$ 35,219</u>	<u>\$ 2,363</u>

See accompanying notes to financial statements.

Revolving Loan	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 57,797	\$ 102,797
-	18,546	1,034,130
-	37,921	231,110
-	319,207	1,625,433
-	-	217,094
-	-	26,667
45,181	-	45,181
-	97,240	97,240
12,845	5,572	19,756
-	715	18,321
<u>\$ 58,026</u>	<u>\$ 536,998</u>	<u>\$ 3,417,729</u>
\$ -	\$ -	\$ 636,987
-	87,507	1,315,051
-	-	513,949
-	260	74,916
-	-	378,139
-	15,947	524,973
2,527	153,658	156,185
-	130,000	143,421
-	83,720	89,982
<u>2,527</u>	<u>471,092</u>	<u>3,833,603</u>
<u>55,499</u>	<u>65,906</u>	<u>(415,874)</u>
-	116,480	517,279
-	(225,718)	(265,118)
-	-	225,341
<u>-</u>	<u>(109,238)</u>	<u>477,502</u>
55,499	(43,332)	61,628
<u>185,158</u>	<u>406,183</u>	<u>591,341</u>
<u>\$ 240,657</u>	<u>\$ 362,851</u>	<u>\$ 652,969</u>

CITY OF GLADSTONE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2005

Net changes in fund balances - total governmental funds \$ 61,628

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$610,608) exceeded capital outlays (\$138,423). (472,185)

Gain/(loss) on disposal of capital assets. (12,717)

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities. (10,982)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments:		
Bond principal	130,000	
Note principal	13,421	143,421

Net change in deferred revenue which was recognized as revenue in the prior year in the statement of activities. (98,674)

Amount reported in the prior year as a note receivable and deferred revenue in the fund financial statements which was written-off as uncollectable in the current year. (87,299)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	4,095	
Due to other governmental units	(105,580)	
Accrued interest on bonds	3,215	(98,270)

Changes in net assets of governmental activities \$ (575,078)

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
March 31, 2005

	Land Development	Electric Utility	Waste Water Utility	Water Utility
ASSETS				
Current assets:				
Cash and cash equivalents	\$ (6,532)	\$ 1,606,460	\$ (210,683)	\$ (315,381)
Receivables:				
Utilities	-	406,638	88,140	78,223
Notes	-	-	-	-
Interest	-	5,917	-	-
Miscellaneous	-	20,819	10,469	57,181
Inventory	-	360,401	-	-
Total current assets	<u>(6,532)</u>	<u>2,400,235</u>	<u>(112,074)</u>	<u>(179,977)</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	30,500	33,500
Investments	-	182,182	-	-
Notes receivable	-	-	-	-
Due from other funds	-	1,416,238	993	993
Bond issuance costs	-	-	17,504	18,546
Capital assets	597,308	6,521,934	3,824,211	4,280,476
Less accumulated depreciation	(47,760)	(2,654,709)	(2,034,639)	(2,873,451)
Total noncurrent assets	<u>549,548</u>	<u>5,465,645</u>	<u>1,838,569</u>	<u>1,460,064</u>
Total assets	<u>\$ 543,016</u>	<u>\$ 7,865,880</u>	<u>\$ 1,726,495</u>	<u>\$ 1,280,087</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 62,522	\$ 142,360	\$ 8,738	\$ 1,182
Accrued interest	-	-	3,021	-
Customer deposits	-	60,335	-	-
Compensated absences	-	8,434	5,261	6,037
Bonds payable	-	-	55,000	65,000
Notes payable	-	-	4,786	-
Total current liabilities	<u>62,522</u>	<u>211,129</u>	<u>76,806</u>	<u>72,219</u>
Noncurrent liabilities:				
Due to other funds	360,728	-	457,745	198,584
Compensated absences	-	25,304	15,783	18,113
Bonds payable	-	-	245,000	265,000
Notes payable	-	-	21,448	-
Total noncurrent liabilities	<u>360,728</u>	<u>25,304</u>	<u>739,976</u>	<u>481,697</u>
Total liabilities	<u>\$ 423,250</u>	<u>\$ 236,433</u>	<u>\$ 816,782</u>	<u>\$ 553,916</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 188,820	\$ 3,867,225	\$ 1,463,338	\$ 1,077,025
Restricted for:				
Expendable:				
Debt covenants	-	-	-	-
Unrestricted	<u>(69,054)</u>	<u>3,762,222</u>	<u>(553,625)</u>	<u>(350,854)</u>
Total net assets	<u>\$ 119,766</u>	<u>\$ 7,629,447</u>	<u>\$ 909,713</u>	<u>\$ 726,171</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ (14,610)	\$ 1,059,254	\$ (174,255)
-	573,001	-
12,863	12,863	-
48	5,965	-
-	88,469	726
-	360,401	-
<u>(1,699)</u>	<u>2,099,953</u>	<u>(173,529)</u>

-	64,000	-
-	182,182	-
217,022	217,022	-
-	1,418,224	497
-	36,050	-
304,929	15,528,858	1,913,967
<u>(48,892)</u>	<u>(7,659,451)</u>	<u>(1,169,870)</u>
<u>473,059</u>	<u>9,786,885</u>	<u>744,594</u>
<u>\$ 471,360</u>	<u>\$ 11,886,838</u>	<u>\$ 571,065</u>

\$ 1,845	\$ 216,647	\$ 12,467
-	3,021	-
-	60,335	-
-	19,732	-
-	120,000	-
-	4,786	146,909
<u>1,845</u>	<u>424,521</u>	<u>159,376</u>

207,653	1,224,710	-
-	59,200	-
-	510,000	-
-	21,448	124,786
<u>207,653</u>	<u>1,815,358</u>	<u>124,786</u>
<u>\$ 209,498</u>	<u>\$ 2,239,879</u>	<u>\$ 284,162</u>

\$ 256,037	\$ 6,852,445	\$ 472,402
2,658	2,658	-
<u>3,167</u>	<u>2,791,856</u>	<u>(185,499)</u>
<u>\$ 261,862</u>	<u>\$ 9,646,959</u>	<u>\$ 286,903</u>

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended March 31, 2005

	Land Development	Electric Utility	Waste Water Utility	Water Utility
OPERATING REVENUES:				
Charges for services	\$ -	\$ 2,335,961	\$ 493,580	\$ 486,136
Miscellaneous	6,885	54,705	9,717	8,267
Total operating revenue	<u>\$ 6,885</u>	<u>\$ 2,390,666</u>	<u>\$ 503,297</u>	<u>\$ 494,403</u>
OPERATING EXPENSES:				
Salaries and fringes	\$ 556	\$ 439,230	\$ 300,443	\$ 269,685
Supplies	24,133	4,467	16,977	25,128
Contracted services	6,584	70,000	18,944	12,836
Repairs and maintenance	-	57,660	15,661	6,980
Utilities	-	4,863	30,566	39,291
Purchased power	-	1,345,447	-	-
Rent	288	11,398	10,765	4,221
Memberships and dues	-	4,774	2,170	275
Travel	-	898	282	168
Insurance	-	13,311	8,211	11,990
Education and training	-	4,107	225	2,468
In lieu of taxes	-	60,000	12,000	12,000
Depreciation	12,075	200,032	129,922	94,605
Miscellaneous	-	95,060	7,546	6,996
Total operating expenses	<u>43,636</u>	<u>2,311,247</u>	<u>553,712</u>	<u>486,643</u>
Operating income (loss)	<u>(36,751)</u>	<u>79,419</u>	<u>(50,415)</u>	<u>7,760</u>
NONOPERATING REVENUES (EXPENSES):				
Interest income	-	46,561	639	955
Gain (loss) on sale of equipment	-	(174)	-	-
Interest expense	-	-	(6,925)	(22,027)
Total nonoperating revenue (expense)	<u>-</u>	<u>46,387</u>	<u>(6,286)</u>	<u>(21,072)</u>
Income (loss) before transfers and contributions	(36,751)	125,806	(56,701)	(13,312)
Capital contributions	-	33,552	430	50,522
Transfer in	-	-	-	17,600
Transfer out	-	(234,761)	-	-
Change in net assets	(36,751)	(75,403)	(56,271)	54,810
Equity transfer	-	24,496	-	-
Total net assets - beginning	<u>156,517</u>	<u>7,680,354</u>	<u>965,984</u>	<u>671,361</u>
Total net assets - ending	<u><u>\$ 119,766</u></u>	<u><u>\$ 7,629,447</u></u>	<u><u>\$ 909,713</u></u>	<u><u>\$ 726,171</u></u>

See accompanying notes to financial statements.

Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
\$ 18,073	\$ 3,333,750	\$ 344,260
64	79,638	13,009
\$ 18,137	\$ 3,413,388	\$ 357,269
\$ 12,502	\$ 1,022,416	\$ 110,790
1,096	71,801	45,404
28,533	136,897	11,624
-	80,301	41,403
-	74,720	27,498
-	1,345,447	-
550	27,222	317
-	7,219	-
-	1,348	542
-	33,512	13,413
30	6,830	-
-	84,000	4,200
29,152	465,786	100,167
13,917	123,519	474
85,780	3,481,018	355,832
(67,643)	(67,630)	1,437
22,409	70,564	-
-	(174)	-
-	(28,952)	(12,419)
22,409	41,438	(12,419)
(45,234)	(26,192)	(10,982)
152,764	237,268	-
-	17,600	-
(35,000)	(269,761)	-
72,530	(41,085)	(10,982)
(24,496)	-	-
213,828	9,688,044	297,885
\$ 261,862	\$ 9,646,959	\$ 286,903

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended March 31, 2005

	Land Development	Electric Utility	Waste Water Utility	Water Utility
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 6,885	\$ 2,368,675	\$ 525,015	\$ 448,938
Payments to suppliers	(31,079)	(1,625,692)	(112,688)	(118,031)
Payments for wages and related benefits	(556)	(445,567)	(305,979)	(276,998)
Other receipts (payments)	-	51,752	9,717	8,267
Net cash provided (used) by operating activities	(24,750)	349,168	116,065	62,176
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in (out)	-	(234,761)	-	17,600
Cash received (paid) on customer deposits	-	1,880	-	-
Net cash provided (used) by noncapital financing activities	-	(232,881)	-	17,600
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of fixed assets	-	(235,882)	(53,661)	(103,482)
Principal paid on debt instruments	-	-	(69,538)	(65,000)
Interest paid on debt instruments	-	-	(14,429)	(22,027)
Proceeds from sale of capital assets	60,192	83,395	-	-
Proceed from issuance of debt instrument	-	-	-	-
Capital contributions	-	33,552	430	50,522
Net cash provided (used) by capital and related financing activities	60,192	(118,935)	(137,198)	(139,987)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in ATC	-	(22,374)	-	-
Interest earnings	-	46,561	639	955
Net cash provided (used) by investing activities	-	24,187	639	955
Net increase (decrease) in cash and equivalents	35,442	21,539	(20,494)	(59,256)
Cash and equivalents, beginning of year	(41,974)	1,584,921	(159,689)	(222,625)
Cash and equivalents, end of year	<u>\$ (6,532)</u>	<u>\$ 1,606,460</u>	<u>\$ (180,183)</u>	<u>\$ (281,881)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (36,751)	\$ 79,419	\$ (50,415)	\$ 7,760
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	12,075	200,032	129,922	94,605
Changes in assets and liabilities:				
(Increase) decrease in receivables	-	32,714	31,435	(37,198)
(Increase) decrease in due from other funds	-	(2,953)	-	-
(Increase) decrease in prepaids	-	-	10,231	9,419
(Increase) decrease in inventory	-	50,548	-	-
Increase (decrease) in accounts payable	(74)	(4,255)	428	(5,097)
Increase (decrease) in accrued payroll	-	(6,337)	(5,536)	(7,313)
Increase (decrease) in due to other funds	-	-	-	-
Net cash provided by operating activities	<u>\$ (24,750)</u>	<u>\$ 349,168</u>	<u>\$ 116,065</u>	<u>\$ 62,176</u>

See accompanying notes to financial statements.

Nonmajor Enterprise Fund	Total Enterprise Funds	Internal Service Fund
\$ 119,908	\$ 3,469,421	\$ 343,951
(42,739)	(1,930,229)	(142,262)
(12,998)	(1,042,098)	(112,787)
2,952	72,688	13,009
67,123	569,782	101,911
(35,000)	(252,161)	-
-	1,880	-
(35,000)	(250,281)	-
(34,697)	(427,722)	(99,717)
-	(134,538)	(141,991)
-	(36,456)	(12,419)
-	143,587	-
-	-	95,814
25,450	109,954	-
(9,247)	(345,175)	(158,313)
-	(22,374)	-
22,465	70,620	-
22,465	48,246	-
45,341	22,572	(56,402)
(59,951)	1,100,682	(117,853)
\$ (14,610)	\$ 1,123,254	\$ (174,255)
\$ (67,643)	\$ (67,630)	\$ 1,437
29,152	465,786	100,167
101,771	128,722	(309)
-	(2,953)	-
-	19,650	-
-	50,548	-
1,387	(7,611)	2,613
(496)	(19,682)	(1,997)
2,952	2,952	-
\$ 67,123	\$ 569,782	\$ 101,911

CITY OF GLADSTONE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
March 31, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 4,535
Receivables:	
Delinquent taxes	<u>147,708</u>
Total assets	<u><u>\$ 152,243</u></u>
LIABILITIES	
Due to other units governmental units	<u><u>\$ 152,243</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) REPORTING ENTITY

The City of Gladstone was incorporated March 1, 1889 under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services. The following entities are not included because the City does not exercise oversight responsibility or they are autonomous governmental units.

Gladstone Area Schools – provides education services to the community.

Gladstone Area Public Library – provides library services to the community.

Gladstone Area Public Housing Commission – provides housing for the elderly.

Gladstone Senior Citizens Non-Profit Corporation – provides recreational activities for the elderly.

Joint Venture – The City of Gladstone is a participant with Delta County, the City of Escanaba, and local townships in a joint venture to provide for a landfill, the Delta Solid Waste Management Authority. The Authority is governed by a seven person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. Complete financial statements for the Delta Solid Waste Management Authority can be obtained directly from Delta Solid Waste Management Authority. See note Q for additional information.

Delta Solid Waste Management Authority
1100 Delta Avenue
Gladstone, MI 49837

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The accounting policies of the City of Gladstone conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

(2) BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds either in accordance with the above criteria or the State of Michigan reporting requirements for Major and Local Street Funds:

The General Fund which is described below.

The Major Street Fund which is used to account for the repair, maintenance and construction of the City's major streets.

The Local Street Fund which is used to account for the repair, maintenance and construction of the City's local streets.

The Revolving Loan Fund which accounts for activity relating to loans made to local business.

The City reports the following as major enterprise funds in accordance with the above criteria:

The Land Development Fund which accounts for various land improvements which are made to prepare property for development.

The Electric Utility Fund accounts for electric services provided to the citizens of the City of Gladstone.

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Gladstone.

The Water Utility Fund accounts for water services provided to the citizens of the City of Gladstone.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The funds of the City are described below:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the Equipment Fund is the City's only internal service fund and is included with the governmental activities and accounts for equipment usage activity used by various City departments.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fiduciary Funds

Agency Fund - The Tax Fund is the City's only agency fund and is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its business-type activities and proprietary funds.

(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City’s cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The City has not recorded an allowance for uncollectables as the City does not anticipate any material uncollectable accounts.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- d. Inventory – Materials inventory in the Electric Utility Fund and supplies inventory in the General and Major Street Funds are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to April 1, 2001, governmental funds' infrastructure asset, the major and local street systems, were not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25 – 50 years
Machinery and equipment	3 – 20 years
Infrastructure	10 – 50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- f. Restricted Assets – Restricted assets include cash and equivalents which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- i. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The City has reported deferred revenue of \$58,914 in the General Fund for personal property taxes and advanced revenue collections and \$174,326 in the Revolving Loan Fund for long-term contracts receivable. These amounts have been deemed measurable, but not currently available.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

j. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(5) REVENUES AND EXPENDITURES/EXPENSES

Revenues

Government-Wide Statements

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues includes all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the City's policy to use restricted resources first.

Expenses/Expenditures

Government-Wide Statements

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Other Financing Sources (Uses)

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

(6) OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to February 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to April 1, a public hearing is held to allow for public comment on the proposed budget and then the budget is legally enacted through passage of an ordinance.
- c. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- d. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council in March. Individual amendments were material in relation to the original appropriations which were amended.
- e. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Property Taxes

Property taxes levied attach as an enforceable lien on property. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College and the County. Collections and remittances for all taxes are accounted for in the Tax (Agency) Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGET AND FUND BALANCE NON-COMPLIANCE

Budget Violations – Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

Local Street	\$	2,807
State Trunkline		3,333
Revolving Loan Fund		1,127
Downtown Development Authority		28,591

- (2) Actual expenditures exceeded budgeted amounts for certain expenditure categories within the following funds:

General Fund

- (3) The City's General Fund original budget, as adopted, included a deficit fund balance of \$204,475.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE C – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

Imprest Cash		\$	740
Deposits:			
Checking accounts	\$	353,708	
Certificate of Deposit		<u>1,125,000</u>	<u>1,478,708</u>
 Total cash and equivalents			 <u>\$ 1,479,448</u>
 Government-wide Statement of Net Assets Presentation:			
Unrestricted	\$	1,187,847	
Restricted		<u>287,066</u>	<u>1,474,913</u>
 Statement of Fiduciary Net Assets			 <u>4,535</u>
 Total cash and equivalents			 <u>\$ 1,479,448</u>

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE C – CASH AND EQUIVALENTS (continued)

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost and are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the City's cash deposits are as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE C – CASH AND EQUIVALENTS (continued)

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 200,000	\$ 200,000
Uninsured	1,530,209	1,279,448
Total	<u>\$ 1,730,209</u>	<u>\$ 1,479,448</u>

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$223,066 for cemetery care as required by the nature of the fund.

During the fiscal year ended March 31, 2004, the City refinanced the 1994 waste water and water system revenue bonds, in part by issuing 2004 waste water and water system revenue bonds. As part of issuing the new bonds, the bond agreement calls for the City to establish and maintain separate depository accounts for bond and interest redemption and an account for replacement and improvement. Cash has been restricted in the following funds:

Waste Water Fund	\$ 30,500
Water Fund	33,500

NOTE D – INVESTMENTS

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City contributed \$155,085 in cash and \$27,097 in equipment for a total investment of \$182,182.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE D – INVESTMENTS (continued)

The following is the percentage interest in UPPPA by municipality:

Village of Baraga	4.66%
City of Crystal Falls	4.36%
City of Gladstone	6.88%
Village of L'Anse	3.45%
Marquette Board of Light and Power	67.64%
City of Negaunee	5.82%
City of Norway	7.19%
	<hr/>
Total	100.00%

UPPPA owns .6322% of ATC, LLC and .6322% of ATC Management, Inc.

NOTE E – PROPERTY TAXES

(1) Tax information:

Assessment Date December 31

Taxes payable July 10

Taxes Delinquent March 1 following date payable

Penalties for delinquency – The following charges are added to unpaid taxes:

On August 15, a 4% penalty is added.

Commencing March 1, interest is added to all unpaid taxes at the rate of 1% per month. Delinquent real property taxes are acquired by the Treasurer of Delta County. An additional 4% collection fee is added to the balance owing at the time.

Lien on property – Unpaid taxes, together with all charges thereon, become a continuing lien on property assessed. The general tax law of the State provides that real estate delinquent for taxes be sold at public auction in July or November of the second year following the year of tax levy.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE E – PROPERTY TAXES (continued)

(2) Schedule of State Equalized Valuation and Taxable Values:

Year	Real	Personal	Total
1961	5,587,235	1,118,180	6,705,415
1962	5,598,660	1,205,260	6,803,920
1963	5,626,235	1,155,835	6,782,070
1964	5,644,135	1,142,530	6,786,665
1965	5,599,860	953,840	6,553,700
1966	5,636,540	1,169,945	6,806,485
1967	6,775,445	1,660,800	8,436,245
1968	7,897,400	1,824,000	9,721,400
1969	8,167,350	1,953,550	10,120,900
1970	8,314,800	2,096,250	10,411,050
1971	8,566,700	2,045,300	10,612,000
1972	10,121,150	2,065,580	12,186,730
1973	11,297,663	2,020,500	13,318,163
1974	13,509,300	2,179,100	15,688,400
1975	14,149,600	2,237,000	16,386,600
1976	14,966,925	971,450	15,938,375
1977	16,742,200	1,177,950	17,920,150
1978	18,634,825	1,280,350	19,915,175
1979	20,554,123	1,249,450	21,803,573
1980	22,818,556	1,416,900	24,235,456
1981	23,717,233	1,402,900	25,120,133
1982	25,591,300	1,416,100	27,007,400
1983	26,259,100	1,735,400	27,994,500
1984	26,456,400	1,886,300	28,342,700
1985	27,148,200	2,128,500	29,276,700
1986	28,189,600	2,339,400	30,529,000
1987	28,523,700	2,300,100	30,823,800
1988	28,897,200	3,542,000	32,439,200
1989	29,348,900	3,564,000	32,912,900
1990	30,052,800	3,928,000	33,980,800
1991	32,466,100	4,025,000	36,491,100
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794
2004	73,303,100	6,376,000	79,679,100

Note: Pursuant to Proposal A, assessed property taxes are levied based upon taxable values beginning in 1995.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE E – PROPERTY TAXES (continued)

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations. For years 1969 to 2004, inclusive, the City and State valuations are the same.

(3) Annual tax rates (per \$1,000 valuation):

Year	City Tax	School *	Schools			Total Local	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt	Taxes				
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	39.6600
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	46.2900
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	49.5700
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	48.4100
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	49.6300
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	50.8000
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	43.6600
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	45.6000
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	45.6100
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	46.3460
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	49.6200
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	49.6500
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	54.3000
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	50.3000
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	51.3000
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	54.8000
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	54.8800
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	44.3300
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	55.2000
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	57.7200
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	60.0800
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	58.6200
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	48.4515
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	59.0996
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	61.4496
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	61.0659
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	61.5094
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	60.8732
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	65.8154
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	66.7452

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE E – PROPERTY TAXES (continued)

Year	City Tax	School *	Schools			Total	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt	Local Taxes				
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	59.6997
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	60.6549

* From 1961 to 1993, the school millage was applied to all properties and included the debt millage.

- (4) City's Share of Current Property Taxes – The City's share of current real and personal property taxes included in the General Fund for the year ended March 31, 2005 was \$1,162,091.

NOTE F – LONG-TERM RECEIVABLES

Governmental Activities:

- (1) Revolving Loan Fund – The City has received various grants from the State of Michigan Small Cities Grant Program which it has loaned to local businesses on installment contracts for building and equipment acquisition. The primary purpose for the loans was job retention and creation within the City.

The Revolving Loan Fund has recorded as deferred revenue the amount of the loans in the fund financial statements. As the contract payments are received by the Revolving Loan Fund, they will be shown as revenues in accordance with generally accepted accounting principles. In the statement of net assets the deferred revenue has been eliminated. Remaining principal payments to be received as of March 31, 2005 are as follows:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE F – LONG-TERM RECEIVABLES (continued)

Year Ending March 31	Amount
2006	\$ 55,529
2007	34,555
2008	20,320
2009	17,911
2010	12,171
Thereafter	38,840
Total	<u>\$ 179,326</u>

In prior years, the City, through the Revolving Loan Fund, made two loans to Lakeside Machine which has since ceased operations, one for \$93,000 and another for \$100,000. Based on the circumstances relating to the closure and the way the note was written, the City has determined that the note with an original principal balance of \$93,000 and a carrying value of \$68,838 be written-off as uncollectable, which was done in 2004. The remaining note with an original principal balance of \$100,000 and a carrying value of \$92,299 was written-off in 2005, with the exception of \$5,000, which was the settlement as part of the bankruptcy proceedings.

Business-Type Activities:

The Economic Development Corporation has made loans to various local businesses to assist in capital asset acquisitions or for operational needs. Remaining principal payments to be received as of March 31, 2005 are as follows:

Year Ending March 31	Amount
2006	\$ 12,863
2007	13,934
2008	14,787
2009	15,704
2010	16,675
Thereafter	155,922
Total	<u>\$ 229,885</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE G – CAPITAL ASSETS

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2005, was as follows:

	Balance at April 1, 2004	Additions	Disposals	Balance at March 31, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,601,627	\$ -	\$ -	\$ 1,601,627
Capital assets being depreciated:				
Land improvements	119,600	-	-	119,600
Buildings	2,622,752	19,544	-	2,642,296
Machinery and equipment	2,645,278	82,660	21,195	2,706,743
Infrastructure-road system	9,591,090	44,729	-	9,635,819
Infrastructure-other	108,353	91,206	-	199,559
Total capital assets	<u>16,688,700</u>	<u>238,139</u>	<u>21,195</u>	<u>16,905,644</u>
Less accumulated depreciation:				
Land improvements	23,920	11,620	-	35,540
Buildings	1,010,478	56,788	-	1,067,266
Machinery and equipment	1,619,648	155,315	8,478	1,766,485
Infrastructure-road system	6,880,442	480,114	-	7,360,556
Infrastructure-other	7,482	6,938	-	14,420
Total accumulated depreciation	<u>9,541,970</u>	<u>710,775</u>	<u>8,478</u>	<u>10,244,267</u>
Governmental activities capital assets, net	<u>\$ 7,146,730</u>	<u>\$ (472,636)</u>	<u>\$ 12,717</u>	<u>\$ 6,661,377</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE G – CAPITAL ASSETS (continued)

	Balance at April 1, 2004	Additions	Disposals	Balance at March 31, 2005
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 411,336	\$ -	\$ 60,192	\$ 351,144
Capital assets being depreciated:				
Buildings	190,954	1,035	-	191,989
Machinery and equipment	682,687	22,890	16,110	689,467
Distribution/collection system	13,857,944	532,844	94,530	14,296,258
Total capital assets	<u>15,142,921</u>	<u>556,769</u>	<u>170,832</u>	<u>15,528,858</u>
Less accumulated depreciation:				
Buildings	18,568	7,205	-	25,773
Machinery and equipment	405,053	54,560	16,110	443,503
Distribution/collection system	6,786,643	404,021	489	7,190,175
Total accumulated depreciation	<u>7,210,264</u>	<u>465,786</u>	<u>16,599</u>	<u>7,659,451</u>
Business-type activities capital assets, net	<u>\$ 7,932,657</u>	<u>\$ 90,983</u>	<u>\$ 154,233</u>	<u>\$ 7,869,407</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
General government	\$ 7,615
Public health and safety	66,116
Parks and recreation	65,285
Cemetery	393
General public works	31,928
Street system	538,627
Community development	<u>811</u>
Total governmental activities depreciation expense	<u>\$ 710,775</u>
Business-type activities:	
Electric	\$ 200,032
Water	94,605
Waste water	129,922
Wireless broadband	27,287
Development	<u>13,940</u>
Total business-type activities depreciation expense	<u>\$ 465,786</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE G – CAPITAL ASSETS (continued)

The City adopted a capitalization policy that identifies fixed assets as those having a value of \$2,000 or more as of March 31, 2002. In prior years, the City capitalized fixed assets with a value of \$500 or more.

NOTE H – RETIREMENT PLANS

MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM

(1) Plan Description – The City of Gladstone participates in a defined benefit noncontributory retirement plan administered by the Municipal Employee's Retirement System (MERS) which covers substantially all full-time employees. MERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. Contributions to the plans include provisions for funding of prior service costs in excess of fund assets where applicable. All full-time employees of the City are eligible to participate in the system who were hired prior to December 1, 1997. Benefits vest after ten years of service. The MERS plan also provides death and disability benefits.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851, MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

There are three valuation divisions within the plan which provide different benefit provisions. The General Other division, which covers the non-supervisory employees of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after age 55 with 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE H – RETIREMENT PLANS (continued)

The Police-Fire division, which covers the police and fire personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after 25 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation with a maximum benefit of 80 percent of a member's final five-year average compensation.

The General Supervisor division, which covers the supervisory personnel of the City, provides full benefits after the age of 60 to employees with 10 years of credited service or after the age of 55 with 20 years of credited service. The annual retirement benefit, payable monthly for life, is an amount equal to the sum of 2.5 percent of a member's final five-year average compensation, with a maximum benefit of 80 percent of the member's final five-year average compensation.

All three valuation divisions adopted the Benefit E which provides a onetime benefit increase to present retirees and beneficiaries. The amount of the increase is equal to 2 percent of the present benefit times the number of years since the later of retirement or the last Benefit E increase.

Actuarial Accrued Liability – The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a net long-term investment yield of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE H – RETIREMENT PLANS (continued)

GASB 25 INFORMATION (AS OF 12/31/03)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 3,969,020
Terminated employees not yet receiving benefits	105,511
Current Employees:	
Accumulated employee contributions including allocated investment income	88,602
Employer financed	<u>3,701,719</u>
Total actuarial liability	7,864,852
Net assets available for benefits, at actuarial value (market value is \$4,401,759)	<u>4,820,635</u>
Unfunded (overfunded) actuarial accrued liability	<u>\$ 3,044,217</u>

GASB 27 INFORMATION (AS OF 12/31/03)

Fiscal year beginning	April 1, 2005
Annual required contribution (ARC)	\$ 266,904
Amortization factor used	0.058519

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal cost actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

<u>Year Ended March 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 178,769	100%	\$ -
2003	183,316	100%	-
2004	220,896	100%	-

The City was required to contribute \$250,018 for the year ended March 31, 2005. Payments were based on contribution calculations made by MERS.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE H – RETIREMENT PLANS (continued)

Aggregate Accrued Liabilities – Comparative Schedule

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
2001	\$ 4,765,634	\$ 6,895,344	\$ 2,129,710	69%	\$ 1,109,224	192%
2002	4,681,789	7,244,174	2,562,385	65%	1,045,871	245%
2003	4,820,635	7,864,852	3,044,217	61%	1,102,977	276%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997 and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

401 (A) RETIREMENT PLAN

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In addition, if the employee contributes an additional 3.0% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee.

Year Ended March 31,	Number of Participants	City's Share	Employee's Share
2003	22	\$ 71,917	\$ 18,969
2004	22	79,360	20,913
2005	21	86,617	22,804

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE I – VESTED EMPLOYEE BENEFITS

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$161,536 are reported under governmental activities and \$78,932 is reported under business-type activities in the Statement of Net Assets.

NOTE J – POST RETIREMENT HEALTH BENEFITS

The City provides its employees with post retirement health benefits. These benefits were negotiated through union contracts for the P.O.L.C. and Teamsters union contracts and approved separately for the Supervisors group, a non-union group.

The P.O.L.C. contract requires the City to pay the monthly health insurance premium for employees who meet the retirement criteria as outlined in the union contract until the age of 65, or for 12 years, whichever is less. Any increase in the monthly premiums after the date of retirement shall be borne by the retired employee. The Teamsters contract requires the City to pay the monthly health insurance premiums for 10 years after retirement or until covered by Medicare, whichever is less. The City is required to pay premium increase for years one through seven and the retired employee will pay the premium increases for years eight, nine and ten. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first. All premium increases during that period of time will be covered by the City.

For the year ended March 31, 2005, the City has not performed an actuarial valuation for the post-employment health benefits and it is the City's policy to fund this benefit on a pay-as-you-go basis. The following is a summary of the post-employment health benefits:

For the Year Ended March 31,	Annual Cost	Number of Retiree's Receiving Benefits
2003	\$ 73,664	8
2004	85,146	8
2005	87,214	8

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE K – LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended March 31, 2005:

Type of Debt	Balance April 1, 2004	Additions	Deductions	Balance March 31, 2005	Amounts Due Within One Year
Governmental Activities:					
Note - fire truck	\$ 122,252	\$ -	\$ 13,421	\$ 108,831	\$ 14,150
Note - vac truck	72,010	-	14,963	57,047	11,635
Note - garbage truck	61,180	-	14,237	46,943	14,791
Note - dump truck	40,091	-	20,531	19,560	19,560
Note - loader	86,450	-	9,875	76,575	10,275
Note - dump truck	58,142	-	19,179	38,963	19,956
Note - trackless	-	34,040	1,433	32,607	4,392
D.D.A. bonds	565,000	-	80,000	485,000	85,000
1995 B.A. bonds	125,000	-	20,000	105,000	25,000
2000 B.A. bonds	815,000	-	30,000	785,000	35,000
Due to other					
governmental units	-	105,580	-	105,580	-
Compensated absences	165,631	-	4,095	161,536	32,307
 Total governmental long-term debt	 \$ 2,110,756	 \$ 139,620	 \$ 227,734	 \$ 2,022,642	 \$ 272,066
Business-type Activities:					
Note - tanker truck	\$ 30,772	\$ -	\$ 4,538	\$ 26,234	\$ 4,786
1994 Waste Water bond	60,000	-	60,000	-	-
1994 Water bond	60,000	-	60,000	-	-
2004 Waste Water bond	305,000	-	5,000	300,000	55,000
2004 Water bond	335,000	-	5,000	330,000	65,000
Compensated absences	66,104	12,828	-	78,932	19,732
 Total business-type long-term debt	 \$ 856,876	 \$ 12,828	 \$ 134,538	 \$ 735,166	 \$ 144,518

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE K – LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at March 31, 2005 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2006	\$ 94,759	\$ 14,854	\$ 145,000	\$ 75,864
2007	132,259	10,344	150,000	66,627
2008	49,018	6,181	155,000	56,930
2009	35,829	4,246	175,000	46,651
2010	30,402	2,671	150,000	35,236
2011-2015	27,499	1,453	230,000	124,092
2016-2020	10,760	205	300,000	57,231
2021-2025	-	-	70,000	1,777
	<u>\$ 380,526</u>	<u>\$ 39,954</u>	<u>\$ 1,375,000</u>	<u>\$ 464,408</u>

For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2006	\$ 4,786	\$ 1,300	\$ 120,000	\$ 15,188
2007	5,051	1,035	125,000	12,788
2008	5,329	757	125,000	10,288
2009	5,626	609	130,000	7,476
2010	5,442	149	130,000	3,900
	<u>\$ 26,234</u>	<u>\$ 3,850</u>	<u>\$ 630,000</u>	<u>\$ 49,640</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE K – LONG-TERM DEBT (continued)

Governmental Activities:

As of March 31, 2005, the governmental activities long-term debt consisted of the following:

Notes Payable:

Note payable issued October 22, 1996 for \$201,985 at 5.4% to First Bank for the purchase of a fire truck. The note calls for 180 monthly principal and interest payments of \$1,640.

During the year ended March 31, 2000, the City signed a 60-month note for the purchase of a vac-all truck. The note calls for monthly payments of \$1,798 and a final balloon payment of \$61,437. The note bears an interest rate of 5.1%.

During 1998, the City signed a 60 month note for the purchase of a garbage truck. The note calls for monthly principal and interest payments of \$1,375 and a final balloon payment of \$71,696. The note bears an interest rate of 5.65%.

During the year ended March 31, 2001, the City signed a 60 month note for the purchase of a tandem axle dump truck with accessories. The note calls for monthly payments (59, including interest) of \$1,848 and bears an interest rate of 5.35%.

During the year ended March 31, 2002 the City signed a 60 month note for the purchase of a front-end loader. The note calls for monthly principal and interest payments of \$1,098 and a final balloon payment of \$60,325 and bears an interest rate of 4.04%.

During the year ended March 31, 2002 , the City signed a 60 month note for the purchase of a dump truck. The note calls for monthly principal and interest payments of \$1,763 and bears an interest rate of 4.0%.

During the year ended March 31, 2005, the City signed an 83 month note for the purchase of a 4x4 articulating tractor. The note calls for monthly principal and interest payments of \$463 and bears an interest rate of 3.8%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE K – LONG-TERM DEBT (continued)

Due to Other Governmental Units:

During the year ended March 31, 2005, the City was informed that they may not have properly distributed payment in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission (STC) and they have not received a resolution back from the STC. The City has estimated and recorded an amount of \$105,580 that would be due to other taxing units if that is what is required. A final amount cannot be determined until the City receives notice from the STC regarding final disposition of this issue.

Bonds Payable:

Bonds were issued November 1, 1994 for \$995,000 with a variable interest rate ranging from 5.9% to 8.0% for the purpose of making improvements on the Downtown Development Area and have a final maturity of May 2009.

Bonds were issued March 15, 1995 for \$270,000 at 5.6% in the name of the Building Authority for the purpose of making improvements at the Sports Park and have a final maturity of March 2009.

Bonds were issued May 4, 2000 for a total of \$891,190 at 5% in the name of the Building Authority for the purpose of paying the cost of acquiring, constructing and equipping a public safety building to be used by the City and have a final maturity of May 2020.

Business-type Activities:

As of March 31, 2004, the long-term debt of business-type activities consists of the following:

Note Payable:

During the year ended March 31, 2000, the City signed a 120 month note for the purchase of a tanker truck. The note calls for monthly principal and interest payments of \$507 and bears an interest rate of 5.4%.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE K – LONG-TERM DEBT (continued)

Bonds Payable:

1994 Waste Water System Bonds - General obligation waste water system bonds, original issue dated October 10, 1994 for \$800,000 with a variable interest rate ranging from 4.25% to 6.4%. Bonds are due serially from May 1, 1996 until May 1, 2009. Interest is payable in the years 1996 to 2004, inclusive, and are not subject to prepayment prior to maturity. Bonds or portions thereof in multiples of \$5,000 payable in the year 2005 and thereafter may be prepaid at the option of the Issuer, in such order as the Issuer shall determine and within any maturity by lot, on any interest payment date on or after May 1, 2004 at par and accrued interest to the date fixed for prepayment plus a premium expressed as a percentage of par as follows:

2% of par of each installments or portions thereof called for prepayment on or after May 1, 2004, but prior to May 1, 2005.

1% of the par of each installments or portions thereof called for prepayment on or after May 1, 2006.

No premiums shall be paid on installments or portions thereof called for prepayment on or after May 1, 2006.

General purpose of the bond issue was to construct a sewer system at the South Bluff.

During the year ended March 31, 2004, the City defeased the 1994 waste water bonds in the amount of \$350,000, leaving an outstanding balance on the bonds of \$60,000. The refunding was accomplished by issuing new bonds in the amount of \$305,000 and additional cash contribution from the City's Waste Water Fund. The funds used to pay-off the bonds were placed in escrow to satisfy the required future principal and interest requirements of the defeased amount of \$350,000 and no further payments relating to the defeased bonds are required. These bonds were paid off as of March 31, 2005.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE K – LONG-TERM DEBT (continued)

1994 Water System Bonds - General obligation water system bonds, original dated October 1, 1994 for \$800,000 with a variable interest rate ranging from 4.25% to 6.4%. Bonds are due serially from October 1, 1995 until October 1, 2009. Interest is payable April 1 and October 1. Bonds of this issue maturing in the years 1995 to 2004, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing in the year 2005 and thereafter may be redeemed at the option of the Issuer, in such order as the Issuer shall determine and within any maturity by lot, on any interest payment date on or after October 1, 2004 at par and accrued interest to the date fixed for redemption plus premium expressed as a percentage of par as follows:

2% of par of each bond or portion thereof called for redemption on or after October 1, 2004, but prior to October 1, 2006.

1% of par of each bond or portion thereof called for redemption on or after October 1, 2006, but prior to October 1, 2008.

No premium shall be paid on bonds or portions thereof called for redemption on or after October 1, 2008.

General purpose of the bond issue was to construct a water system at the South Bluff.

During the year ended March 31, 2004, the City defeased the 1994 water bonds in the amount of \$370,000, leaving an outstanding balance of \$60,000. The refunding was accomplished by issuing new bonds in the amount of \$335,000 and additional cash contribution from the City's Water Fund. The funds used to pay-off the bonds were placed in escrow to satisfy the required future principal and interest requirements of the defeased amount of \$370,000 and no further payments relating to the defeased bonds are required. These bonds were paid off as of March 31, 2005.

2004 Waste Water System Bonds – On February 18, 2004 the City issued waste water system revenue refunding bond series 2004 for the purpose of retiring the 1994 waste water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$305,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each November 1 and May 1. Principal payments are due each November 1 with the final principal payment due no later than November 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE K – LONG-TERM DEBT (continued)

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$111,505. Of the \$111,505, \$80,000 represents advance payment of principal made by the City as part of defeasing the 1994 bond issue, leaving net cumulative savings of \$31,505. The economic gain resulting from this transaction at a present value of 3.477% is \$20,301.

2004 Water System Bonds – On February 18, 2004 the City issued water system revenue refunding bond series 2004 for the purpose of retiring the 1994 water system bonds. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$335,000 and have a variable interest rate of 2.0% to 3.0%. Interest payments are due and payable each October 1 and April 1. Principal payments are due each October 1 with the final principal payment due no later than October 1, 2009. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

The cash flow required to service the 1994 bonds versus the cash flow to service the 2004 bonds resulted in cash savings of \$21,972. The economic gain resulting from this transaction at a present value of 3.477% is \$14,158.

NOTE L – BOND ISSUANCE COSTS

On February 18, 2004 the City issued waste water and water revenue bonds which resulted in bond issuance costs which will be amortized over the life of the bond issue. Below is the detail relating to the bond issuance costs:

	<u>Bond Costs</u>	<u>Premium paid on 1994 Bonds</u>	<u>Total</u>
Waste Water Fund	\$ 14,881	\$ 7,000	\$ 21,881
Water Fund	\$ 15,783	\$ 7,400	<u>\$ 23,183</u>
			<u>\$ 45,064</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE M – INTERFUND BALANCES AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables have been classified as noncurrent assets and liabilities in the Statement of Net Assets due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>\$ 44,213</u>	Land Development	<u>\$ 44,213</u>
		Water Fund	198,584
		Waste Water Fund	457,745
		Land Development	316,515
		General Fund	169,839
		Major Street Fund	46,013
		EDC Fund	79,260
		Gladstone Wireless Fund	128,393
		Local Street Fund	<u>19,889</u>
Electric Fund	<u>1,416,238</u>	Subtotal	<u>1,416,238</u>
Major Street Fund	869		
Local Street Fund	621		
Waste Water Fund	993		
Water Fund	993		
Internal Service Fund	<u>497</u>		
Subtotal	<u>3,973</u>	General Fund	<u>3,973</u>
Total	<u>\$ 1,464,424</u>	Total	<u>\$ 1,464,424</u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE M – INTERFUND BALANCES AND TRANSFERS (continued)

The transfers to and from the various funds are made to account for budgetary authorizations and/or providing funding for operations as needed. Interfund transfers for the year ended March 31, 2005 were as follows:

	Transfers In	Transfers Out
General Fund:		
Electric Utility	\$ 234,761	\$ -
Local Street	-	7,000
Nonmajor governmental	51,638	-
	<hr/>	<hr/>
Total General Fund	286,399	7,000
	<hr/>	<hr/>
Major Street Fund	35,000	32,400
	<hr/>	<hr/>
Local Street Fund	79,400	-
	<hr/>	<hr/>
Water Utility	17,600	-
	<hr/>	<hr/>
Electric Utility	-	234,761
	<hr/>	<hr/>
Total Nonmajor Funds	116,480	260,718
	<hr/>	<hr/>
Totals	\$ 534,879	\$ 534,879
	<hr/>	<hr/>

NOTE N – RESTRICTED FUND EQUITY

Retained earnings reserves as reported on the combined balance sheet at March 31, 2005 are as follows:

Nonmajor Enterprise Fund:	
Restricted for debt covenant:	
Represents the amount the City has guaranteed on a business loan	<hr/> <hr/> \$ 2,658

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE O – RISK MANAGEMENT

The City of Gladstone participates as a member of the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

This summarizes certain obligations of MMRMA and the City. Except for specific coverage limits and the City's Self Insured Retention (hereinafter the "SIR") and deductibles contained in this Coverage Overview, the provisions of the Joint Powers Agreement, Coverage Documents, MMRMA rules, regulations, and administrative procedures shall prevail in any dispute. The City agrees that any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

City Obligations – City of Gladstone is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the City's SIR. City of Gladstone's SIR and deductibles are as follows:

Table I
City Deductibles and Self Insured Retentions

COVERAGE	DEDUCTIBLE	SELF INSURED RETENTION
1. Liability	None	State Pool Member
2. Vehicle Physical Damage	\$250/Vehicle	State Pool Member
3. Property & Crime	\$250/Occurrence	State Pool Member

The City must satisfy all deductibles before any payments are made from the City's SIR or by MMRMA.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE O – RISK MANAGEMENT (continued)

All costs including damages and allocated loss adjustment expenses are on an occurrence basis and must be paid first from the City's SIR. The City's SIR and deductibles must be satisfied fully before MMRMA will be responsible for any payments. The most MMRMA will pay is the difference between the City's SIR and the Limits of Coverage stated in the Coverage Overview.

City of Gladstone agrees to maintain, at all times, on account with MMRMA sufficient funds to pay its SIR obligations. The City agrees to abide by all MMRMA rules, regulations, and administrative procedures pertaining to the City's SIR.

MMRMA Obligations – After the City's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses up to limits established per agreement between the City and MMRMA.

At March 31, 2005, the City had no outstanding claims which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

NOTE P – CONTINGENT LIABILITIES

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2005.

During the year ended March 31, 2005, the City was informed that they had not properly distributed payment-in-lieu of taxes received from nonprofit housing entities. The City has contacted the State Tax Commission and is waiting for a determination as to the final disposition of this issue. A total amount owed has not been determined as of March 31, 2005.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE Q – JOINT VENTURE – DELTA SOLID WASTE LANDFILL

The Delta Solid Waste Management Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and the local units of government within the County. It was established in order to provide for a new landfill since the current county-wide site, owned by the City of Gladstone, was approaching saturation.

The Authority is governed by a seven-person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities and one member of the Delta County Board of Commissioners. The three members of the Authority Board from the villages and townships will be selected by and from a body composed of one representative from each such township or village; the three board members of the cities shall be selected by and from a body composed of two representatives from each such city; and the member of the Delta County Board of Commissioners shall be chosen by said Board of Commissioners after review of recommendations by the Townships, Villages and City representatives. The Authority as described herein has no taxing power.

The following local governmental units are participants in the Authority; shown with their respective percentage shares in the Authority:

<u>Local Governmental Unit</u>	<u>Percentage Share</u>
Delta County	51.8%
City of Escanaba	18.6%
City of Gladstone	5.9%
Local Townships	<u>23.7%</u>
	<u>100.0%</u>

Operation and maintenance costs are paid out of tipping fees assessed against users of the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone, and private solid waste companies serving the local units. The landfill began operation in December 1985. Financial information of the Delta Solid Waste Management Authority and Recycling Program is available at their administrative office located at 5701 19th Avenue North, Escanaba, MI 49829.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2005

NOTE R – RETIREMENT PLAN PROCEEDS

Many years ago, the City maintained a separate retirement system for its employees which was administered by an insurance company and is held in the name of Gladstone Municipal Employees Retirement System. The City received \$225,341 in proceeds from the liquidation of this plan and subsequently paid the same amount into the Municipal Employee's Retirement System to reduce that plan's unfunded liability.

NOTE S – EQUITY TRANSFER

In a prior year, the City began a wireless broadband internet service. The financial accounting for this activity was recorded in the Electric Fund. In the current year the City decided to record the activity relating to the wireless broadband service in a separate fund. The net equity transfer resulting from prior year's financial activity amounted to \$24,496.

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Federal sources	\$ 45,000	\$ 45,000	\$ 45,000	\$ -
State sources	624,761	624,761	574,129	(50,632)
Local sources	162,620	162,545	176,851	14,306
Taxes	1,309,465	1,309,465	1,306,226	(3,239)
Recreation	198,600	212,710	217,094	4,384
Public safety	33,060	26,127	26,667	540
Interest income	1,350	1,350	1,121	(229)
Miscellaneous	6,150	10,819	11,009	190
Total revenues	<u>\$ 2,381,006</u>	<u>\$ 2,392,777</u>	<u>\$ 2,358,097</u>	<u>\$ (34,680)</u>
EXPENDITURES:				
General government:				
City commission	\$ 140,905	\$ 379,126	\$ 389,498	\$ (10,372)
City manager	29,370	44,090	45,067	(977)
Elections	6,250	12,965	14,036	(1,071)
City assessor	23,572	36,226	37,784	(1,558)
Board of review	275	275	855	(580)
City treasurer	34,924	45,474	47,588	(2,114)
City clerk	26,450	26,450	26,334	116
City hall	37,975	65,575	61,406	4,169
Planning and zoning	17,075	12,075	14,419	(2,344)
Public health and safety:				
Police department	916,753	909,820	915,500	(5,680)
Fire department	237,683	237,683	224,289	13,394
Building and housing inspections	157,318	115,136	107,438	7,698
Parks and recreation:				
Recreation administrative	63,037	75,465	74,841	624
Harbor	48,205	48,205	48,718	(513)
Parks	53,365	49,785	51,144	(1,359)
Beach	38,445	36,445	29,313	7,132
Sports park	131,485	131,485	124,395	7,090
Campground	38,464	48,898	43,719	5,179
Miscellaneous	151,275	157,651	141,819	15,832
Cemetery:				
Cemetery administrative	13,330	13,330	14,540	(1,210)
Ground maintenance and burials	55,000	55,000	60,116	(5,116)
General public works:				
Public works administrative	53,000	53,000	43,813	9,187
Forestry	12,300	12,300	16,340	(4,040)
Sidewalks	2,000	2,000	1,559	441
Grounds maintenance	5,000	5,000	7,721	(2,721)
Beautification	12,855	12,855	12,873	(18)
Composting	15,000	15,000	18,213	(3,213)
Leaf/grass collection	11,870	11,870	10,591	1,279
Garbage collection	256,300	256,300	262,547	(6,247)
City clean-up	-	4,482	4,482	-
Total expenditures	<u>2,589,481</u>	<u>2,873,966</u>	<u>2,850,958</u>	<u>23,008</u>
Excess revenues (expenditures)	<u>(208,475)</u>	<u>(481,189)</u>	<u>(492,861)</u>	<u>(11,672)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	11,000	311,000	286,399	(24,601)
Transfer out	(7,000)	(7,000)	(7,000)	-
Retirement plan proceeds	-	225,341	225,341	-
Total other financing sources (uses)	<u>4,000</u>	<u>529,341</u>	<u>504,740</u>	<u>(24,601)</u>
Net changes in fund balances	<u>(204,475)</u>	<u>48,152</u>	<u>11,879</u>	<u>(36,273)</u>
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ (204,475)</u>	<u>\$ 48,152</u>	<u>\$ 11,879</u>	<u>\$ (36,273)</u>

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET FUND
For the Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 291,000	\$ 291,000	\$ 313,974	\$ 22,974
Local sources	10,000	10,000	16,338	6,338
Interest income	200	200	218	
Miscellaneous	200	200	6,208	6,008
Total revenues	\$ 301,400	\$ 301,400	\$ 336,738	\$ 35,320
EXPENDITURES:				
Street system	\$ 307,000	\$ 307,000	\$ 304,119	\$ 2,881
Excess revenues (expenditures)	(5,600)	(5,600)	32,619	38,201
OTHER FINANCING SOURCES (USES):				
Transfer in	38,000	38,000	35,000	(3,000)
Transfer out	(32,400)	(32,400)	(32,400)	-
Total other financing sources (uses)	5,600	5,600	2,600	(3,000)
Net changes in fund balances	-	-	35,219	35,201
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ 35,219	\$ 67,402

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET FUND
For the Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
State sources	\$ 119,000	\$ 119,000	\$ 127,481	\$ 8,481
Local sources	2,700	2,700	-	(2,700)
Interest income	400	400		
Miscellaneous	600	600	389	(211)
Total revenues	\$ 122,700	\$ 122,700	\$ 127,870	\$ 5,570
EXPENDITURES:				
Street system	\$ 202,100	\$ 202,100	\$ 204,907	\$ (2,807)
Excess revenues (expenditures)	(79,400)	(79,400)	(77,037)	2,763
OTHER FINANCING SOURCES (USES):				
Transfer in	79,400	79,400	79,400	-
Transfer out	-	-	-	-
Total other financing sources (uses)	79,400	79,400	79,400	-
Net changes in fund balances	-	-	2,363	2,763
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ 2,363	\$ 5,526

CITY OF GLADSTONE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REVOLVING LOAN
For the Year Ended March 31, 2005

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Loan repayment	\$ 38,589	\$ 38,589	\$ 45,181	\$ 6,592
Interest income	10,933	10,933	12,845	1,912
Total revenues	\$ 49,522	\$ 49,522	\$ 58,026	\$ 8,504
EXPENDITURES:				
Community development	\$ 1,400	\$ 1,400	\$ 2,527	\$ (1,127)
Excess revenues (expenditures)	48,122	48,122	55,499	7,377
Fund balances - beginning	185,158	185,158	185,158	-
Fund balances - ending	<u>\$ 233,280</u>	<u>\$ 233,280</u>	<u>\$ 240,657</u>	<u>\$ 7,377</u>

**CITY OF GLADSTONE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
March 31, 2005**

	Special Revenue Funds			
	State Trunkline	MSHDA Rental Property	MSHDA Homeowner	Downtown Development Authority
ASSETS				
Cash and equivalents:				
Restricted	\$ -	\$ -	\$ -	\$ -
Unrestricted	(338)	(10,717)	3,091	(21,405)
Receivables:				
Interest	-	-	-	349
Due from other governmental units	338	11,683	-	155,957
Total assets	<u>\$ -</u>	<u>\$ 966</u>	<u>\$ 3,091</u>	<u>\$ 134,901</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	<u>\$ -</u>	<u>\$ 966</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:				
Reserved for:				
Cemetery perpetual care	-	-	-	-
Unreserved	-	-	3,091	134,901
Total fund balances	<u>-</u>	<u>-</u>	<u>3,091</u>	<u>134,901</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 966</u>	<u>\$ 3,091</u>	<u>\$ 134,901</u>

See accompanying notes to financial statements.

Debt Service Funds		Permanent Fund	Total Nonmajor Governmental Funds
Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	
\$ -	\$ -	\$ 223,066	\$ 223,066
811	-	-	(28,558)
-	-	982	1,331
-	-	-	167,978
<u>\$ 811</u>	<u>\$ -</u>	<u>\$ 224,048</u>	<u>\$ 363,817</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 966</u>
-	-	224,048	224,048
811	-	-	138,803
<u>811</u>	<u>-</u>	<u>224,048</u>	<u>362,851</u>
<u>\$ 811</u>	<u>\$ -</u>	<u>\$ 224,048</u>	<u>\$ 363,817</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended March 31, 2005

	Special Revenue Funds			
	State Trunkline	MSHDA Rental Property	MSHDA Homeowner	Downtown Development Authority
REVENUES:				
Federal sources	\$ -	\$ 57,797	\$ -	\$ -
State sources	18,546	-	-	-
Local sources	-	29,710	3,091	-
Taxes	-	-	-	319,207
Lease income	-	-	-	-
Interest income	-	-	-	1,533
Miscellaneous	-	-	-	715
Total revenues	\$ 18,546	\$ 87,507	\$ 3,091	\$ 321,455
EXPENDITURES:				
Public health and safety	\$ -	\$ 87,507	\$ -	\$ -
Cemetery	-	-	-	-
Street system	15,947	-	-	-
Community development	-	-	-	153,658
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	15,947	87,507	-	153,658
Excess revenues (expenditures)	2,599	-	3,091	167,797
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(2,599)	-	-	(219,080)
Total other financing sources (uses)	(2,599)	-	-	(219,080)
Net changes in fund balances	-	-	3,091	(51,283)
Fund balances - beginning	-	-	-	186,184
Fund balances - ending	\$ -	\$ -	\$ 3,091	\$ 134,901

See accompanying notes to financial statements.

Debt Service Funds		Permanent Fund	
Building Authority	DDA Bond Debt Service	Cemetery Perpetual Care	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 57,797
-	-	-	18,546
-	-	5,120	37,921
-	-	-	319,207
97,240	-	-	97,240
-	-	4,039	5,572
-	-	-	715
<u>\$ 97,240</u>	<u>\$ -</u>	<u>\$ 9,159</u>	<u>\$ 536,998</u>
\$ -	\$ -	\$ -	\$ 87,507
-	-	260	260
-	-	-	15,947
-	-	-	153,658
50,000	80,000	-	130,000
47,240	36,480	-	83,720
<u>97,240</u>	<u>116,480</u>	<u>260</u>	<u>471,092</u>
<u>-</u>	<u>(116,480)</u>	<u>8,899</u>	<u>65,906</u>
-	116,480	-	116,480
-	-	(4,039)	(225,718)
<u>-</u>	<u>116,480</u>	<u>(4,039)</u>	<u>(109,238)</u>
-	-	4,860	(43,332)
811	-	219,188	406,183
<u>\$ 811</u>	<u>\$ -</u>	<u>\$ 224,048</u>	<u>\$ 362,851</u>

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
March 31, 2005

	Economic Development Corporation	Gladstone Wireless	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ (16,110)	\$ 1,500	\$ (14,610)
Receivables:			
Notes	12,863	-	12,863
Interest	48	-	48
Total current assets	<u>(3,199)</u>	<u>1,500</u>	<u>(1,699)</u>
Noncurrent assets:			
Notes receivable	217,022	-	217,022
Capital assets:	60,994	243,935	304,929
Less accumulated depreciation	<u>(21,605)</u>	<u>(27,287)</u>	<u>(48,892)</u>
Total noncurrent assets	<u>256,411</u>	<u>216,648</u>	<u>473,059</u>
Total assets	<u><u>\$ 253,212</u></u>	<u><u>\$ 218,148</u></u>	<u><u>\$ 471,360</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 345	\$ 1,500	\$ 1,845
Noncurrent liabilities:			
Due to other funds	<u>79,260</u>	<u>128,393</u>	<u>207,653</u>
Total liabilities	<u><u>\$ 79,605</u></u>	<u><u>\$ 129,893</u></u>	<u><u>\$ 209,498</u></u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 39,389	\$ 216,648	\$ 256,037
Restricted for:			
Expendable:			
Debt covenants	2,658	-	2,658
Unrestricted	<u>131,560</u>	<u>(128,393)</u>	<u>3,167</u>
Total net assets	<u><u>\$ 173,607</u></u>	<u><u>\$ 88,255</u></u>	<u><u>\$ 261,862</u></u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2005

	Economic Development Corporation	Gladstone Wireless	Total Nonmajor Enterprise Funds
OPERATING REVENUES:			
Charges for services	\$ -	\$ 18,073	\$ 18,073
Miscellaneous	64	-	64
	<u>64</u>	<u>-</u>	<u>64</u>
Total operating revenue	\$ 64	\$ 18,073	\$ 18,137
OPERATING EXPENSES:			
Salaries and fringes	\$ 7,861	\$ 4,641	\$ 12,502
Supplies	399	697	1,096
Contracted services	5,906	22,627	28,533
Rent	51	499	550
Education and training	30	-	30
Depreciation	1,865	27,287	29,152
Miscellaneous	11,582	2,335	13,917
	<u>27,694</u>	<u>58,086</u>	<u>85,780</u>
Total operating expenses	27,694	58,086	85,780
Operating income (loss)	(27,630)	(40,013)	(67,643)
NONOPERATING REVENUES (EXPENSES):			
Interest income	22,409	-	22,409
	<u>22,409</u>	<u>-</u>	<u>22,409</u>
Total nonoperating revenue (expense)	22,409	-	22,409
Income (loss) before transfers and contributions	(5,221)	(40,013)	(45,234)
Capital contributions	-	152,764	152,764
Transfer out	(35,000)	-	(35,000)
	<u>(40,221)</u>	<u>112,751</u>	<u>72,530</u>
Change in net assets	(40,221)	112,751	72,530
Equity transfer	-	(24,496)	(24,496)
Total net assets - beginning	213,828	-	213,828
Total net assets - ending	<u>\$ 173,607</u>	<u>\$ 88,255</u>	<u>\$ 261,862</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
For the Year Ended March 31, 2005

	Economic Development Corporation	Gladstone Wireless	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 101,835	\$ 18,073	\$ 119,908
Payments to suppliers	(18,081)	(24,658)	(42,739)
Payments for wages and related benefits	(8,357)	(4,641)	(12,998)
Other receipts (payments)	(19,021)	21,973	2,952
	<u>56,376</u>	<u>10,747</u>	<u>67,123</u>
Net cash provided (used) by operating activities			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(35,000)	-	(35,000)
	<u>(35,000)</u>	<u>-</u>	<u>(35,000)</u>
Net cash provided (used) by noncapital financing activities			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of fixed assets	-	(34,697)	(34,697)
Capital contributions	-	25,450	25,450
	<u>-</u>	<u>(9,247)</u>	<u>(9,247)</u>
Net cash provided (used) by capital and related financing activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	22,465	-	22,465
	<u>22,465</u>	<u>-</u>	<u>22,465</u>
Net cash provided (used) by investing activities			
	43,841	1,500	45,341
Net increase (decrease) in cash and equivalents			
Cash and equivalents, beginning of year	(59,951)	-	(59,951)
Cash and equivalents, end of year	<u>\$ (16,110)</u>	<u>\$ 1,500</u>	<u>\$ (14,610)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (27,630)	\$ (40,013)	\$ (67,643)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,865	27,287	29,152
Changes in assets and liabilities:			
(Increase) decrease in receivables	101,771	-	101,771
Increase (decrease) in accounts payable	(113)	1,500	1,387
Increase (decrease) in accrued payroll	(496)	-	(496)
Increase (decrease) in due to other funds	(19,021)	21,973	2,952
	<u>(19,021)</u>	<u>21,973</u>	<u>2,952</u>
Net cash provided by operating activities	<u>\$ 56,376</u>	<u>\$ 10,747</u>	<u>\$ 67,123</u>

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN
ALL UTILITY FUNDS
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)
For the Year Ended March 31, 2005

ALL UTILITIES:

Population served	5,032
Average number of meters in service	5,425

ELECTRIC UTILITY FUND:

K.W.H. purchased	35,424,157
K.W.H. sold	<u>33,766,227</u>
K.W.H. lost (4.68%)	<u>1,657,930</u>
Revenue from sales	<u>\$ 2,335,961</u>
Average number of meters	3,219
Estimated street light K.W.H. used	266,000

WATER UTILITY FUND:

Gallons pumped into plant	150,819,300
Gallons used in plant and for system maintenance	<u>6,213,480</u>
Gallons pumped to mains	144,605,820
Gallons sold	<u>118,337,967</u>
Gallons lost (18.16%)	<u>26,267,853</u>
Revenue from sales	<u>\$ 486,136</u>
Average number of meters in service	2,206

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 493,580</u>
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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Commission
City of Gladstone
Gladstone, MI 49837

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of and for the year ended March 31, 2005, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated August 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting – In planning and performing our audit, we considered the City of Gladstone, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Gladstone, Michigan, in a separate letter dated August 15, 2005.

Compliance and Other Matters – As part of obtaining reasonable assurance about whether the City of Gladstone, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Gladstone, Michigan, in a separate letter dated August 15, 2005.

This report is intended solely for the information and use of management, others within the organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 15, 2005

CITY OF GLADSTONE, MICHIGAN

REPORT TO MANAGEMENT

MARCH 31, 2005



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

REPORT TO MANAGEMENT

To the Honorable Mayor and Members
of the City Council
City of Gladstone

Audit Committee Communications

We have audited the financial statements of the City of Gladstone, Michigan for the year ended March 31, 2005, and have issued our reports thereon dated August 15, 2005. Professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for with management is responsible.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 11, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the City of Gladstone, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Gladstone's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

To the Honorable Mayor and Members
of the City Council
City of Gladstone
Page 2

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Gladstone, Michigan are described in Note A of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the City of Gladstone, Michigan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were: the useful lives of fixed assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. A significant audit adjustment may or may not indicate matters that could have a significant effect on the City of Gladstone's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgement, the audit adjustments made to the utility receivable accounts were significant, and indicate matters that could have a significant effect on the City of Gladstone's financial reporting process.

To the Honorable Mayor and Members
of the City Council
City of Gladstone
Page 3

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Gladstone's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of the City of Gladstone, Michigan for the year ended March 31, 2005, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

To the Honorable Mayor and Members
of the City Council
City of Gladstone
Page 4

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated August 15, 2005, on the financial statements of the City of Gladstone, Michigan.

We have already discussed many of these comments and recommendations with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the used of City Council and management of the City of Gladstone and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.L.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 15, 2005

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2005

Light Deposits

Comment:

During our testing of the light deposit payable, we noted that the general ledger reflects \$1,991 more in light deposits than the utility billing system.

Recommendation:

We recommend that the general ledger and the utility billing system be reconciled on a monthly basis so light deposits payable is accurately reflected in both systems.

Management Response:

Changes in job duties will allow more time for monthly reconciliation.

Utility Receivables

Comment:

1. We noted that the utility receivable accounts are not being reconciled between the general ledger and the utility billing system.
2. We noted one billing cycle that was not posted to the general ledger.
3. We noted two instances where the same utility receipt batches were posted to the general ledger twice.
4. Our audit adjustments resulted in a net adjustment to utility accounts receivable of \$289,033, an increase over the original general ledger balance.

Recommendation:

We recommend that the general ledger and utility billing system be reconciled on a monthly basis to assure that both systems are properly accounting for the utility accounts receivable.

Management Response:

Changes in job duties will allow more time for monthly reconciliation.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2005

Bank Reconciliations

Comment:

At the time our fieldwork procedures began in May, bank reconciliations had only been completed through October 2004. Adjustments which were required as part of correcting the utility accounts receivable balances also had a significant impact on the cash accounts.

Recommendation:

In order to maintain adequate internal controls over cash, it is necessary to reconcile the cash accounts on a monthly basis and to investigate any unreconcilable differences immediately.

Management Response:

Staff will allot more time in the future to ensure reconciliations are complete before the audit begins.

Reconciliation of Various Balance Sheet Accounts

Comment:

During our testing we noted that various balance sheet accounts were not being reconciled on a regular basis.

Recommendation:

Balance sheet accounts should be reconciled on a regular basis, either to subsidiary ledgers or other supporting documentation. These accounts will help the City in determining the proper amounts owed to or by the City to third parties.

Management Response:

The City is now reconciling balance sheet accounts with subsidiary ledgers monthly.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2005

Review and Approval of Journal Entries

Comment:

Currently journal entries which are posted to the general ledger are not reviewed or approved by someone independent of the general ledger function.

Recommendation:

We recommend that all journal entries posted the general ledger be reviewed and approved by someone independent of the journal entry, in order to strengthen internal controls over the general ledger. The individual who approves the journal entry should understand the journal entry and the effect it has on the City's financial records.

Management Response:

All journal entries are now reviewed by the City Manager.

Distribution of Delinquent Personal Property Taxes

Comment:

For the fiscal year ended March 31, 2005, the City only distributed delinquent personal property taxes to the other taxing units only once. The General Property Tax Act states that within ten business days after the first and fifteenth day of each month, local tax collecting units must account for and deliver to the county treasurer and other tax assessing units, the tax collections on hand on the first and fifteenth day of each month.

Recommendation:

Taxes collected by the City should be remitted to the other taxing units as required by the General Property Tax Act.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2005

Management Response:

The City will adhere to the General Property Tax Act to the best of its ability, however, the City feels there are so few delinquencies that it is not feasible to do distributions bi-weekly.

Receipt System

Comment:

We noted receipts for monies received over the counter or through the mail are not always printed. We also noted that when payments are received they are not immediately entered into the receipt system.

Recommendation:

In order to improve internal controls over cash receipting, all monies that are received should be receipted in immediately and a receipt printed and issued, particularly utility receipts which currently are not entered into the system when they are received over the counter. Currently individuals are given a portion of their utility stub back, which is stamped paid. The funds should be receipted in and a receipt issued as proof of payment.

Management Response:

Although the cash receipting software lists all invoices receipted for, the City will print all cash receipts and receipts from payments put in the drop box.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2005

Budget Non-Compliance

Comment:

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

- (1) The following funds had an excess of expenditures and other uses over appropriations:

Local Street	\$	2,807
State Trunkline		3,333
Revolving Loan Fund		1,127
Downtown Development Authority		28,591

- (2) Actual expenditures exceeded budget amounts for certain expenditure categories within the following funds:

General Fund

- (3) The City's General Fund original budget, as adopted, included a deficit fund balance of \$204,475.

Recommendation:

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations.

Management Response:

If expenditures exceed budgeted amounts in the future, the budget will be amended prior to the end of the fiscal year.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2005

Utility Billing System

Comment:

The following items were noted relating to the utility billing system:

1. Segregation of duties - Currently the utility billing clerk has the ability to make manual adjustments to the utility billing system, generate the billings from the utility billing system, and collect and receipt a large portion of the cash collections relating to utility accounts.
2. Utility billing adjustments – The utility billing clerk reviews and determines which meters should be re-read and which ones should have adjustments made to them without any documentation or approval for adjustments.
3. Use of passwords – When City personnel enter activity into the receipting module, they will use other City employees' user ID's.
4. Delinquent utility accounts – The treatment of delinquent utility accounts, which are put-off to taxes, is not applied consistently.

Recommendation:

1. Segregation of duties – The City should review the procedures relating to the utility billing function and segregate duties relating to the utility billing system if possible.
2. Utility billing adjustments – Adjustments to individual utility accounts should be documented, reviewed and approved by an individual independent of the billing function.
3. Use of passwords – Whenever City employee's enter activity into the software program, they should use their own user ID and passwords. Individual passwords should not be shared and should be changed periodically.
4. Delinquent utility accounts – A formal written policy should be established to develop procedures for handling delinquent utility accounts.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2005

Management Response:

1. Segregation of duties – It is not practical to segregate duties at this time based on a limited staff. The City Manager and department supervisors review financial statements monthly.
2. Utility billing adjustments – Department supervisors will review monthly and initial all adjustments.
3. Use of passwords - All City staff will log in using their own user name and password.
4. Delinquent utility accounts - The City will develop a formal written policy on handling delinquent utility accounts.

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

Comment:

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is being implemented in three phases, with the City of Gladstone being required to implement the Statement for the year ended March 31, 2010. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the City will be required to pay for these benefits. Beginning April 1, 2009, the City will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

CITY OF GLADSTONE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

March 31, 2005

The City Council as well as City Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.